Prospects for international trade: economic blocs and Latin American integration

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International economies have undergone significant changes since the 1970's. In the past two decades we have witnessed:

- Intensive post-war technological developments
- Differences in the relative capacity of highly industrialized countries to apply technological development to improvements in productivity and trade
- Sharp fluctuations in supply and demand of basic commodities, reflected by their price and availability (such as oil, copper, grains, sugar, coffee, etc.)
- Monetary and financial policies implemented independently by major industrial economies, which lead to recessive effects, especially on the economies of developing countries
- Aggressive industrial policies implemented by some developing countries, especially those of the Pacific Rim, aimed at expanding their export markets

While world trade grew noticeably, its regional distribution changed. Total overall exports increased 6.4 times between 1970 and 1980 (from 312 billion to 1,995 billion dollars). Highly industrialized market economies, which have always been the world's leading exporters, participated in this increase by a factor of 7.3 (from 172 billion to 1,262 billion dollars). However, the proportional increase -by a factor of 10.1- in the developing countries' share of the market was spectacular (from 55 billion to 559 billion dollars).

Though the main flow of trade took place between the highly industrialized nations (an increase of 5.2 times, from 172 billion to 894 billion dollars), these figures[1] clearly indicate that while highly industrialized countries account for at least 70 per cent of total world trade, up through 1980 the developing countries share increased more rapidly.

The increase, however, was mostly due to Korea's participation, as well as other Southeast Asian countries and those who export oil, i.e. countries in Africa, the Middle East, and Latin America. The increased value of Latin American exports was mainly due to higher crude oil prices, while in non-oil producing nations the spectacular increase in exports was principally a result of export policies for manufactured goods.

Latin American countries, some affected positively and others adversely by the prices of basic products, such as those mentioned above, were unable to maintain their relative share in world market. Exports from Latin America in 1980 barely totalled 89 billion dollars, i.e. 16

[1] Cf. a paper by Sidney Weintraub, "World Trade Prospects," presented at the Seminar on Regional and Subregional Integration, at *El Colegio de México*, May 1987, Table 3, from data collected by the United Nations, *Handbook of International Trade* and supplements.

per cent of aggregate exports of the developing countries, and a modest 4.4 per cent of total world trade.

Brazil made a good showing in exports of manufactured goods, while Mexico and Venezuela exported mainly crude oil at OPEC-established high prices[2]. Mexico's total exports in 1970 were an insignificant proportion of world exports, but by 1980 they had increased to 0.8 per cent of the world total as a result of the price and volume of oil exports.

Trends and shares in world trade have undergone new and unusual changes since 1982. Aggregate world trade during the 1980's virtually stagnated (even at current prices), although slight growth seems to have taken place, at the rate of 2.5 to 3 per cent per year, during the last three years.

World exports are generally less dynamic due to lower commodity prices, as in the case of oil, and to protectionist policies erected by industrialized countries, especially through non-tariff barriers, and to the recessive impact of foreign debt burdens on Latin America, Africa and parts of Asia.

Nonetheless, up to 1985 the share of developing countries exports continued to rise, increasing to 24 per cent; Latin America's share decreased, while that of Southeast Asia continued to rise. Mexico's total exports remained at one per cent of world exports (with a peak of 1.4 per cent in 1984). This occurred notwithstanding a remarkable four-fold increase in Mexico's exports of manufactured goods after 1983.

These trends are not likely to change much in the foreseeable future, i.e. moderate growth in world trade with an increased participation by Southeast Asian countries, continued non-tariff protection, and imbalances in trade between the United States, Germany and Japan.

There can be no prospect of increased exports from industrialized countries to the deeply indebted nations as long as policies requirinq full payment of external debt prevail, and unless new ways of restructuring or reducing outstanding debt to commercial banks are found. Nor is it likely that there will be a significant increase in the volume of Latin American and African exports of basic goods -including oil- to weakened international markets.

Under these conditions, there are not many options for a country like Mexico. Traditionally, about 66 per cent of Mexican exports have gone to the United States and 20 per cent to Europe. Since 1980, 10 per cent has gone to Japan and the balance to other regions (Latin America absorbs barely 3 to 4 per cent of Mexico's exports).

Because of the present composition of these exports -one third oil, 60 per cent manufactured goods (40 per cent of these are produced by transnational corporations) and 7 per cent mining and agricultural products- the U.S. market will continue to prevail, with or without a free trade agreement between the two countries.

In the event of such an agreement, Mexico's share might increase from 66 to 70-72 per cent over the next six years, or remain the same if a significant increase in the volume is achieved. Exports to the European Economic Community (EEC), which consist mainly of crude oil to Spain, and exports to Japan, are not likely to vary significantly.

Could the creation of "economic blocs" modify this situation? In the first place, today's definition of an economic bloc is not the same as it was in the thirties, when it meant clearly restrictive trade and payments in an autarchic context.

The European Community of Twelve and the Nordic Council are not in fact likely to increase tariff protection levels in those areas, but on the other hand it is also unlikely that they will substantially change their present non-tariff barriers.

EEC policy favors the expansion of world trade rather than exclusions, but it subtly manipulates exclusions through non-tariff barriers. The same can be said of Japan, whose domestic market is highly protected. The U.S.-Canada Free Trade Agreement is neither an economic bloc nor a free trade zone that excludes trade from other areas; and the prosperous Southeast Asian countries do not have exclusion policies, even though they have managed to slightly increase their intra-regional trade.

If this is true, then Mexico faces the task of stepping up its industrial effort (as well as its agricultural and mining efforts), in order to maintain and increase its share of its traditional export markets. The main problem is to adopt and implement a permanent strategy for the export of manufactured goods that will enable it to compete with other world market suppliers and penetrate new niches for finished and intermediate products.

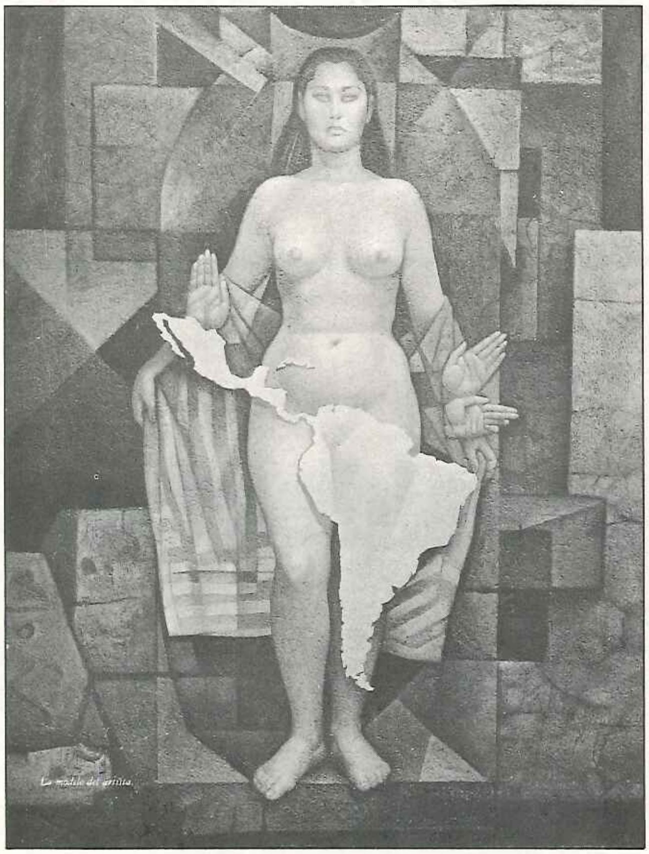
Mexico would then be able to trade with any region or country on the basis of their trade policies, through GATT or through bilateral agreements, without fear of encountering the "negative effects" of the so-called blocs, which in any case are nonrestrictive blocs.

Latin America is another matter. Latin American integration has been undermined by traditional rhetoric, by lack of political will among the main integration-minded Latin American nations, non-compliance with the Quito Act of January 1984, and by the servicing of the external debt.

All the regional and sub-regional schemes -ALADI, the Andean Pact, the Central American Common Market,

[2] These figures are given in current dollars, i.e., not corrected by world inflation rates.

CAPRICOM- are in a state of almost irreparable crisis. Whenever the subject of Latin American economic integration is discussed at technical organization meetings and seminars, high hopes and optimistic conclusions are expressed, but in reality there is not much that can be done.



Jorge González Camarena, The Artist's Model.

Heads of state often express the same lofty ideals, but no practical results are achieved. Brazil and Argentina, signatories in 1986 of a complex mutual integration and free trade agreement (which later was extended to include Uruguay), and which incidentally has some characteristics of restrictive economic blocs, have not made much progress in the three and a half years which have since elapsed.

As long as the Latin American political situation is not clear, and as long as the three or four principal countries in Latin America are unable to undertake significant commitments to regional and subregional integration, Mexico cannot hope to do more than export on an occasional basis or through bilateral negotiations to Central American or South American nations.

Trade will continue to be a private business affair, or one carried out by public enterprises, rather than an inter-governmental affair, no matter how many agreements are signed. If the general export strategy is successful, especially with regard to manufactured goods, and as long as no specifically negative factors interfere (in connection with payments and other restrictions, for instance), Mexico should be able to increase its exports to Latin America with or without integration schemes.

If it is possible to compete in the markets of industrialized nations, it should be more than possible to compete in the Latin American markets. It would be misleading to think that formal integration schemes must first be reformulated since this might take many years.

Latin American integration has long ceased to be a priority for Mexico. For one thing, some Latin American countries take a dim view of including Mexico in their schemes, and for another, Latin American integration is not likely to occur, now or in the foreseeable future.

What Latin America must do -as it has lagged behind in the world economy since the sixties- is to reconsider the relationship between its economic development, especially in relation to industry, and the changes and new trends in the world economy.

This is the only way it can develop new, more practical and lasting ideas about integration, taking into account, for starters, the example of the European Economic Community and its plans to include European countries that are not yet part of it